A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

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FEBRUARY, 1985

NEW INDEXES SHOW CYCLICAL VIGOR IN ASIA

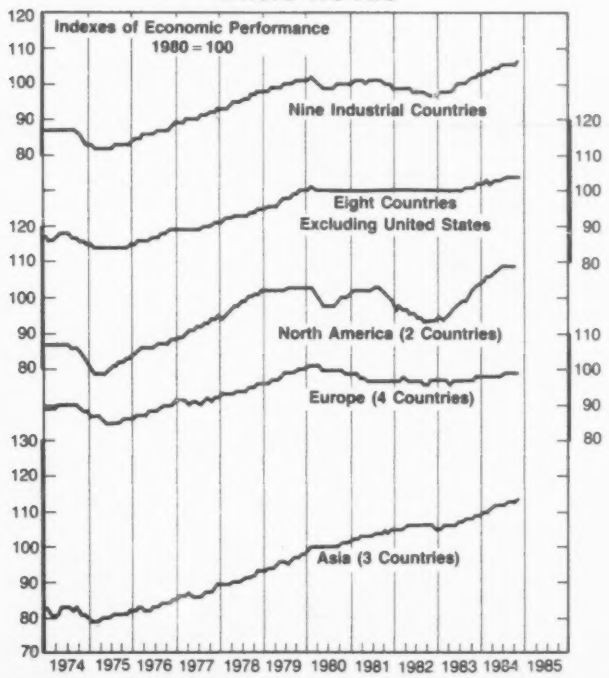
With this issue of the *Scoreboard,* data for Taiwan, R.O.C., are included for the first time. In addition, we have combined Japan, Australia and Taiwan into composite indexes for Asia, to provide a cyclical comparison of that part of the world against Europe (as before, 4 countries) and North America (also new, combining the U.S. and Canada).

The new data for Taiwan reveal a pronounced recent slowing of economic expansion, following a very vigorous recovery. Thanks to continuing cyclical virility in Japan and Australia, however, the three Asian countries taken together show a much stronger current pattern than elsewhere. In Europe, the recovery looks healthy, but not boomy. In sharp contrast, the indexes for North America are languid. The U.S. leading index ended 1984 exactly where it began the year. Most analysts read this as signaling a short-term pause in the U.S. expansion rather than as a portent of impending recession.

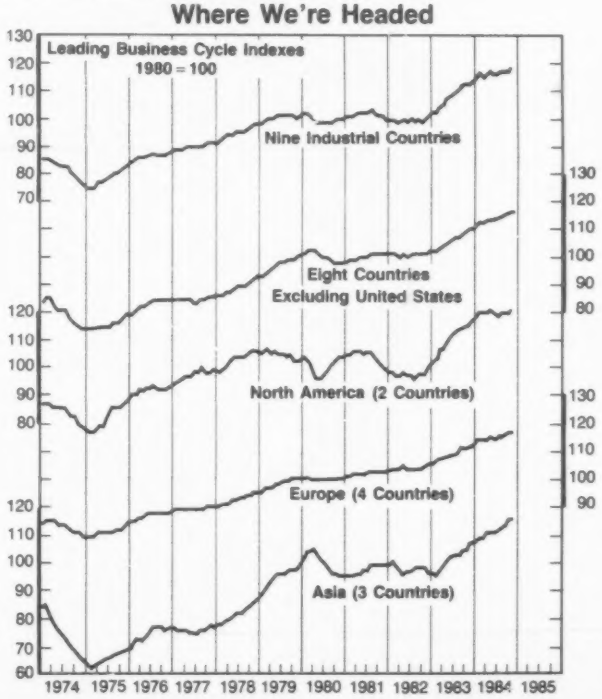
	Ten-year Growth Rate 1969-79	*Leading Business Cycle Indexes Growth Rates** 6 mos. ago	3 mos. ago	Latest month	*Indexes of Economic Performance Growth Rates** 6 mos. ago	3 mos. ago	Latest month	*Current Reading on the Cycle*	*Latest Month Covered*
		annual rates, percent							
9 countries	4	8	5	4	6	5	4	Expansion slowing	Nov.
8 countries ex. U.S.	4	7	6	6	3	3	3	Expansion continuing	Nov.
4 European countries	3	6	4	5	1	2	2	Expansion continuing	Nov.
3 Asian countries	5	10	9	9	6	4	4	Expansion continuing	Nov.
(2) North America	3	9	4	1	11	7	6	Expansion slowing	Nov.
United States	3	6	1	– 1	11	7	5	Expansion slowing	Dec.
Canada	4	5	5	5	3	4	4	Expansion continuing	Nov.
West Germany	3	5	4	5	2	4	5	Expansion continuing	Nov.
France	4	10	6	7	0	0	– 1	Recovery stalled	Nov.
United Kingdom	2	2	– 1	3	0	– 1	2	Revival continuing	Nov.
Italy	3	6	4	4	0	3	7	Recovery continuing	Aug/Sept.
Japan	5	10	9	9	5	4	4	Expansion continuing	Nov.
Australia	4	8	7	8	12	8	7	Expansion continuing	Nov.
Taiwan, R.O.C.	10	10	8	5	11	6	1	Expansion slowing	Dec.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Where We Are


Indexes of Economic Performance
1980 = 100
Nine Industrial Countries
Eight Countries
Excluding United States
North America (2 Countries)
Europe (4 Countries)
Asia (3 Countries)
1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985

Where We're Headed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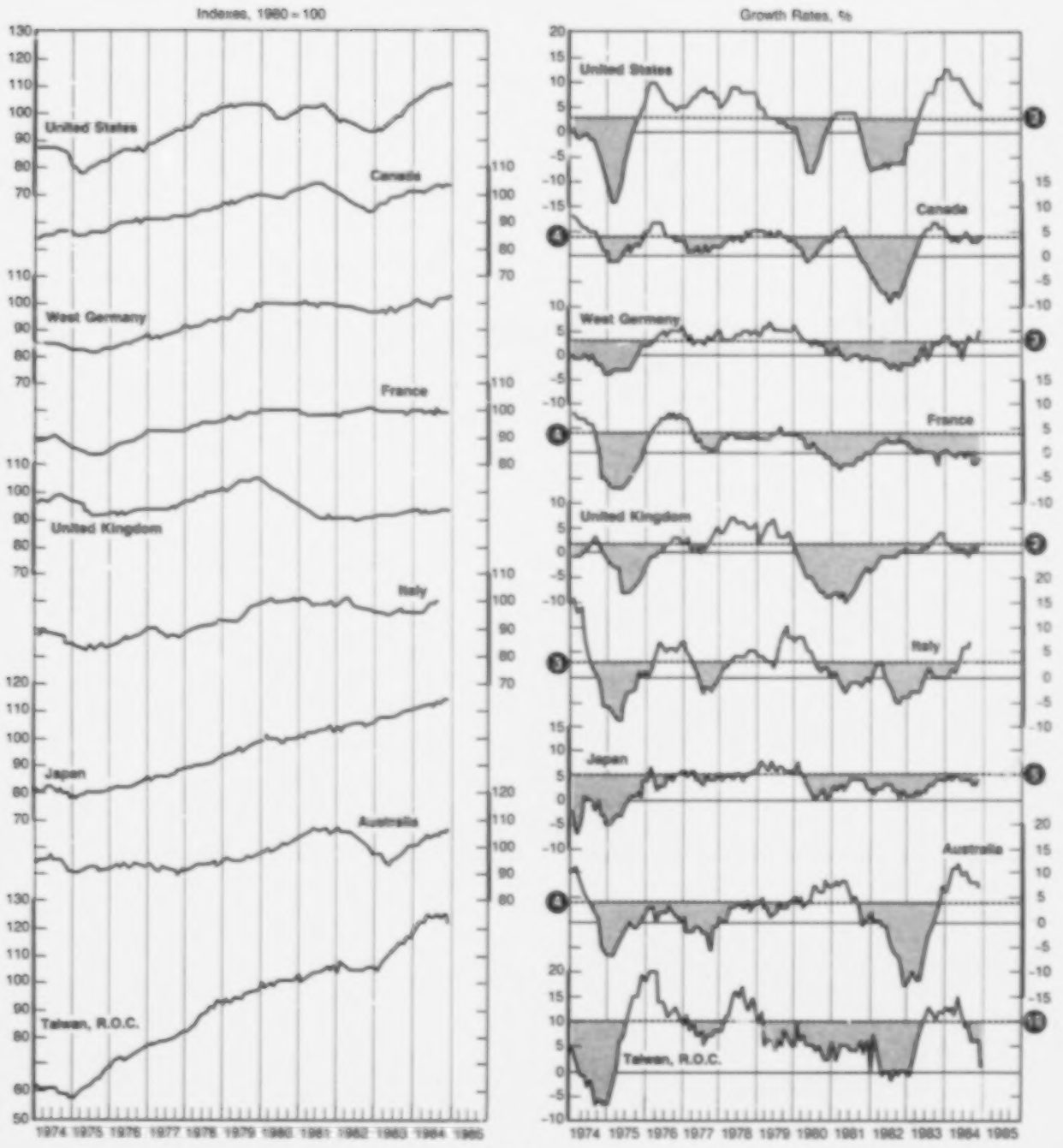
Where We Are

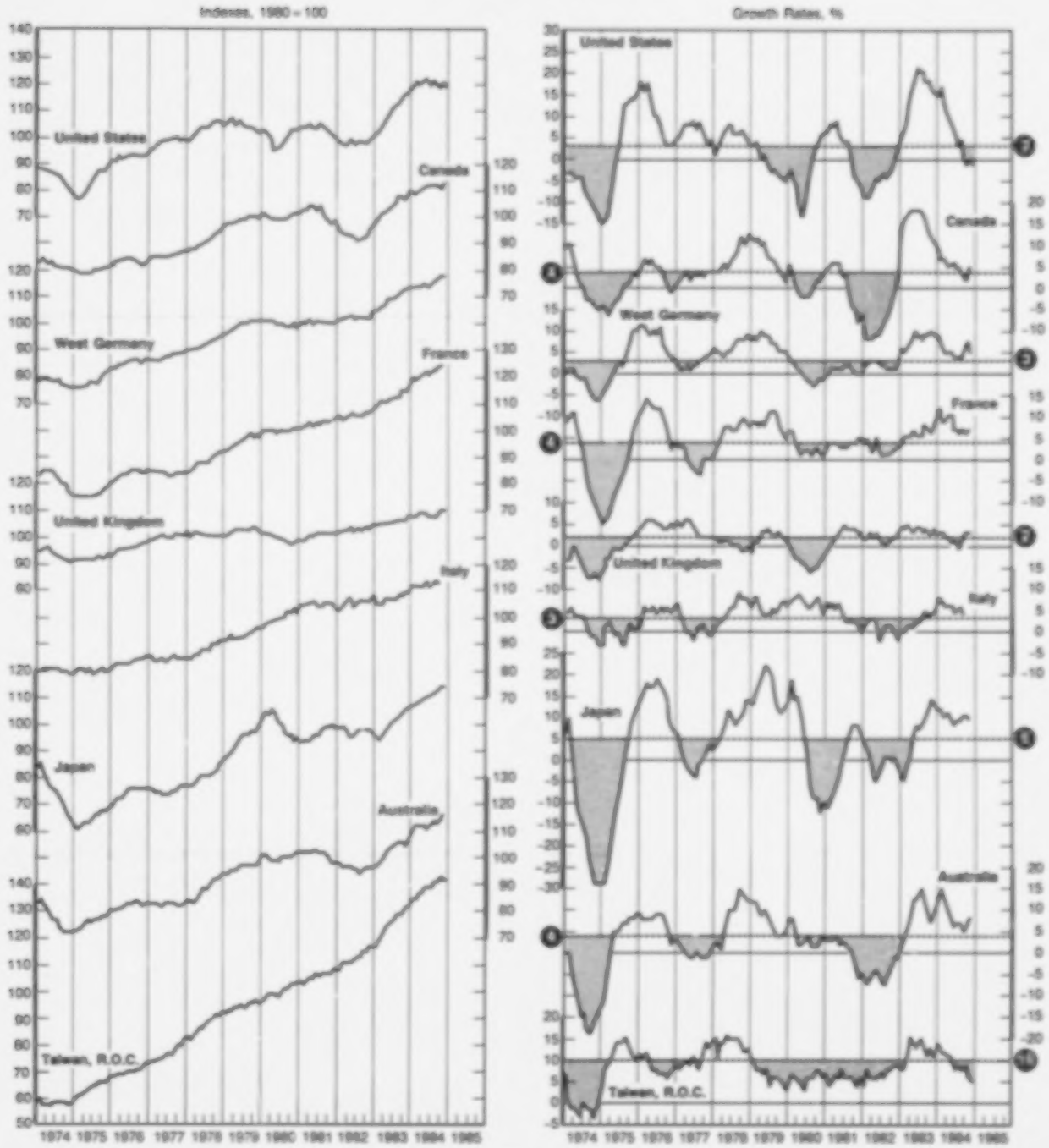
Indexes of Economic Performance



Note: Horizontal dashed lines are average growth rates for 1968-79 in the index and in real GNP.
Sources: OECD and The Conference Board

Where We're Headed

Leading Business Cycle Indexes



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Sources: CIBCR and The Conference Board

LONG-RUN TRENDS IN ECONOMIC GROWTH, FIVE COUNTRIES

The President's new federal budget, issued earlier this month, projects U.S. economic growth at a rate of 4 percent per year from 1985 to 1989. The figure was said to be a compromise between those in the Reagan Administration who thought 5 percent per year was realistic and those who contended that 3 percent was more reasonable. The 4-percent compromise has not raised loud objections among economists, although it seems probable that the projection of 3.3 percent growth made by the Congressional Budget Office would win much wider acceptance within the profession. Almost everyone, however, recognizes how much uncertainty attaches to all such long-term forecasts.

One way to judge how realistic these growth projections are is to compare them with past experience. It is also helpful to compare them with experience in other countries, since what happens to our markets abroad affects growth at home.

In this issue of the *Scoreboard*, then, we take a quick look at trends in real gross national product (GNP) for five major countries, abstracting in each case from the short-run fluctuations associated with the business cycle. (See methodological note below.) The deviations of the actual quarterly data from the trends are useful in analyzing growth recessions and recoveries, but we do not use them for that purpose here. Our purpose is to look at the longer-run shifts in growth rates (see chart), which is what the budget projections purport to represent.

For the United States, the trend rate of growth has been about 2¼ percent since 1976, and it has been less than 3½ percent since 1968. Growth reached the 5-percent range during the mid-1960's, following a spell in the 2-to-3-percent area during the 1950's.

Our neighbor to the north followed a somewhat similar pattern, but with higher growth rates until the 1980's. Since 1980, the trend growth rate in Canada has been under 1 percent.

Looking to Japan, again we find a similar pattern, but with higher growth rates throughout the almost four decades shown in the charts. Since 1974, the trend rate of growth in Japan has advanced from about 3½ percent to about 5 percent, where it has been since 1980.

For West Germany we find the trend rate drifting down from above 8 percent in the early 1950's to around 4 percent in the late 1960's and to 2 percent in recent years. In the United Kingdom, real GNP growth rates have been less exuberant than in any of the other countries. Trend rates of 3½ percent were attained during the 1960's, but by 1976 the rate dropped below 1½ percent, where it has remained to date.

What these historical data suggest is that if the United States is able to achieve a 4-percent growth rate during the next four years, it will be doing quite well relative to its own past performance and also as compared with other countries except Japan. Our trend calculation does not yet show any acceleration in the U.S. growth rate, as it does in the case of Japan. Moreover, we have not been getting much assistance from other countries in achieving faster growth, again with the exception of Japan, as we would if the other countries were already tracking a rising growth-rate trend.

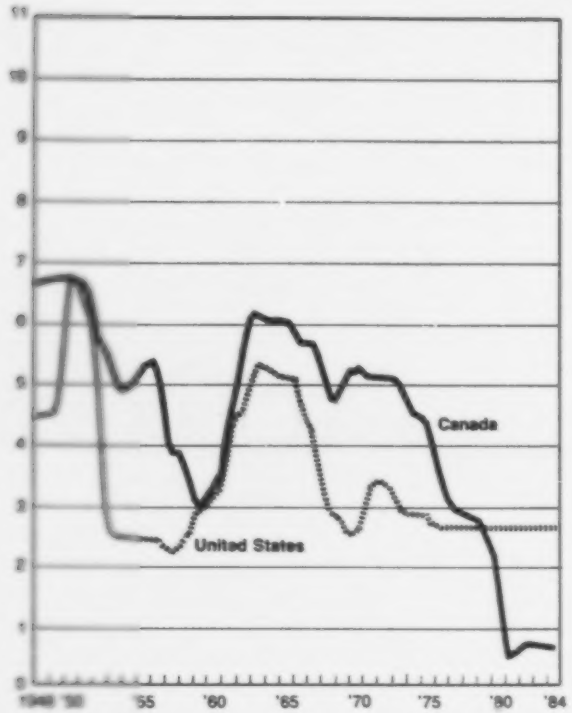
This does not mean that 4 percent growth is impossible. The United States has been a locomotive before and can be one again. So far, however, our trend measures do not reveal much statistical coal under the boiler.

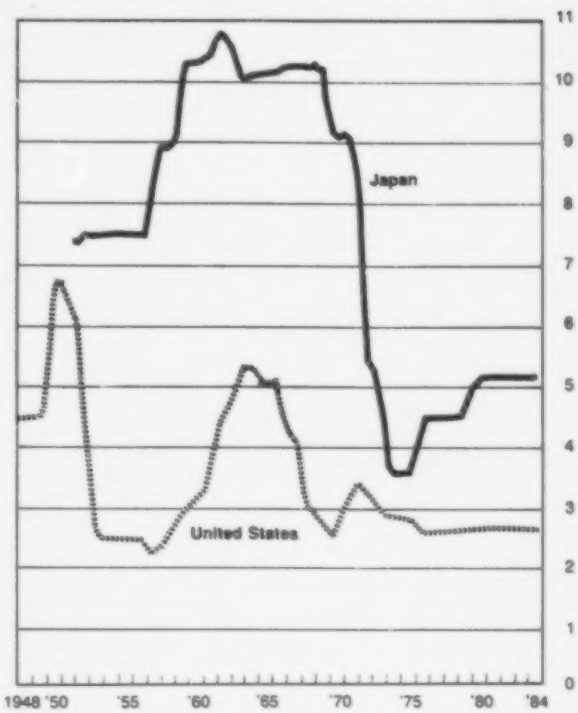
A Methodological Note

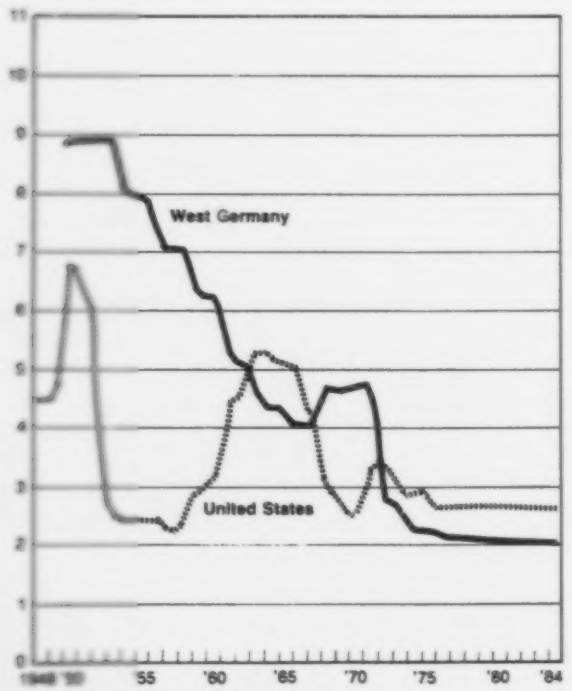
We use a method of calculating growth trends that has been employed for the past ten years or so, with recent modifications developed by the Center for International Business Cycle Research. This method eliminates the effect of business-cycle movements by using averages of GNP running from each country's growth cycle peak to its trough, and from the trough to the subsequent peak. These "phase-averages" are smoothed by taking a two-phase moving average, and these in turn are regarded as points on the trend line, centered at the midpoint of the period covered by each successive pair of phases. To deal with the incomplete phase at the end of a series (for example, the current U.S. recovery, which dates from the fourth quarter of 1982 but has not yet ended) estimates are made of what the phase average would be if it resembled preceding completed phases. These estimates are incorporated in the trend to bring it up to date.

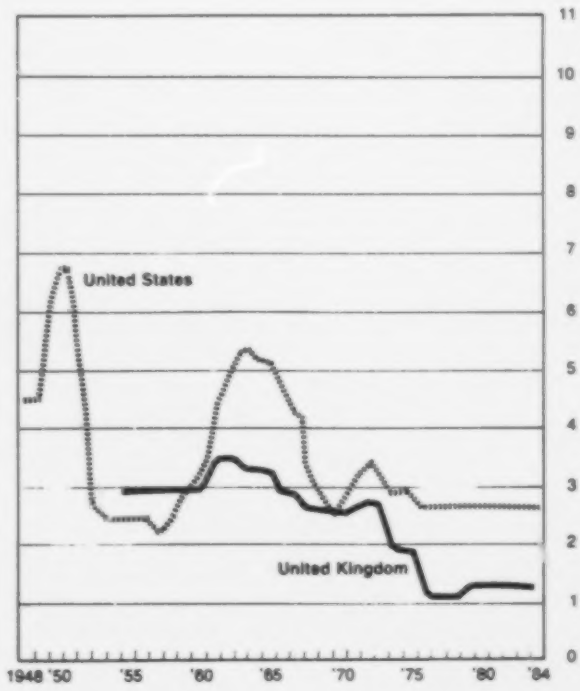
Trend Rates of Growth in Real GNP

Percent Per Year









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